

The Rural Telecommunications Associations'¹ Plan

An interim universal service mechanism for wireless and wireline competitive eligible telecommunications carriers (CETCs) that would serve the public interest.

1. In order for a wireless carrier to be designated as an eligible telecommunications carrier (ETC) in an area served by a rural telephone company, the appropriate regulatory authority would be required to determine whether such designation would be in the public interest. Regulators would be expected to weigh the following factors when determining whether the public interest would be served:²
 - Whether or not the applicant has the adequate financial resources in order to provide quality services throughout the ETC designated service area.
 - The applicant's commitment and ability to provide the supported services throughout the ETC designated service area to all customers who make a reasonable request for service. This should include the submission of a formal build-out plan (which may be filed confidentially) for areas where facilities have not yet been built at the time the application is submitted. Additionally, regulators may require CETCs to explore the possibility of serving requesting customers for which the CETC has not yet extended its own network through resale of another carrier's service.
 - The applicant's ability to remain functional in emergency situations.
 - The applicant's commitment to utilize the high-cost funding it receives only to support infrastructure within the ETC designated service area.
 - The impact of the designation on the Universal Service Fund (USF). For instance, regulators may also consider the overall level of per-line support provided to a specific service area.
 - The commitments made by the applicant regarding quality of telephone service.
 - Whether or not such a designation would create the potential for rural creamskimming by allowing the applicant to serve only the low-cost, high revenue customers in a rural telephone company's service area.
 - Regulators may choose to impose consumer protection requirements as a precondition for designation as a CETC provided that for wireless carriers such regulations do not violate Section 332(c)(3) of the Communications Act.

¹ The Rural Telecommunications Associations consist of the Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO), the Rural Independent Competitive Alliance (RICA), and the Rural Telecommunications Group (RTG).

² These criteria are based collectively on the guidance provided in the Joint Board's Portability Recommended Decision, and also the FCC's Virginia Cellular and Highland Cellular ETC Designation Orders. *See, Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Recommended Decision, 19 FCC Rcd 4257 (2004); *Federal-State Joint Board on Universal Service, Virginia Cellular, LLC Petition for Designation as an Eligible Telecommunications Carrier Throughout its Licensed Area in the Commonwealth of Virginia*, CC Docket No. 96-45, Memorandum Opinion and Order, 19 FCC Rcd 1563 (2004); *Federal-State Joint Board on Universal Service, Highland Cellular, Inc., Petition for Designation as an Eligible Telecommunications Carrier Throughout its Licensed Service Area in the Commonwealth of Virginia*, CC Docket No. 96-45, Memorandum Opinion and Order, 19 FCC Rcd 6422 (2004).

2. Once it has been determined that the designation of a given wireless carrier as a CETC would be in the public interest, it must be determined what level of USF support the CETC should be eligible to receive. It is imperative that the level of support received by all carriers – whether incumbent or competitive – has a reasonable relationship to the carrier’s actual costs of providing the supported services throughout a given service area. Incumbent local exchange carrier (ILEC) support is already directly linked to the carrier’s actual costs, as incumbents are required to either perform cost studies or have their support based on formulas that are derived from similarly situated carriers’ actual costs (the average schedule methodology). At present, all CETCs receive the same per-line support as the incumbent, regardless of whether or not their actual costs bear any relationship to the ILEC’s costs.

The costs for a wireless carrier to provide service over a given area are generally lower than the costs for an ILEC to provide service in the same area. Therefore, rather than wireless CETCs receiving the same level of per-line support as the ILEC in a particular study area, this proposal would permit these carriers to receive a percentage of the total per-line support received by the incumbent.

Readily available industry data supports the presumption that wireless carriers’ costs are lower than ILECs’ costs. This is based upon ILEC and wireless networks as they currently exist. Large wireless carrier networks typically do not cover many sparsely populated and costly rural areas. In addition, wireless carriers provide a different level and quality of service, do not have carrier of last resort obligations, and generally operate with minimal regulatory oversight.

Data from a November 2003 National Exchange Carrier Association (NECA) report to the FCC indicates that the national average capital investment per loop for all ILECs was **\$2,345**.³ In comparison, according to the year-end 2003 survey conducted by the Cellular Telecommunications & Internet Association (CTIA), the national average capital investment per reported subscriber for all wireless carriers was **\$955**.⁴ These figures indicate that, for every \$100 invested in infrastructure by ILECs, wireless carriers invest approximately \$40.

3. It is also important to consider the relative size of the wireless carrier that would be eligible to receive USF support. Small, rural carriers – wireline and wireless alike – do not benefit from economies of scale as do large carriers. For instance, rural carriers have a much smaller base of customers, and thus a more limited ability to spread their operating costs. At present, the process for determining the level of USF support available to the Regional Bell Operating Companies (RBOCs) and other non-

³ National Exchange Carrier Association, *Universal Service Fund Data: NECA Study Results, 2002 Report* (submitted Nov. 3, 2003).

⁴ Dr. Robert F. Roche, Pramesh Jobanputra, Luis A. Rodriguez, *CTIA’s Wireless Industry Indices, Semi-Annual Data Survey Results, A Comprehensive Report from CTIA Analyzing the U.S. Wireless Industry, Year-End 2003 Results* (rel. May 2004), p. 157.

rural carriers recognizes this fact. As a result, the non-rural carriers receive a greatly reduced level of high-cost universal service support, as compared to rural ILECs. Therefore, it is crucial that any process for determining USF support levels for wireless CETCs also acknowledges their relative size, and thus their need for support.

4. Consequently, this plan advocates the creation of a tiered series of ratios for determining wireless CETC support. Wireless carriers seeking ETC designation would be placed into one of four tiers, based on the size of the carrier. The first three tiers would be similar to those established by the Commission in its rules on the deployment of enhanced 911 (E911) capabilities.⁵ A fourth tier would be added to represent the smallest rural wireless carriers.

These tiers are as follows:

Tier I Wireless Carriers – CMRS carriers with national footprints.⁶

Tier II Wireless Carriers – Carriers that have over 500,000 subscribers, but do not possess a national footprint.⁷

Tier III Wireless Carriers – Carriers that have between 100,001 and 500,000 subscribers.

Tier IV Wireless Carriers – Carriers that have 100,000 or fewer subscribers.

Note: In cases where a small wireless carrier has partnered with a larger wireless carrier, if the small carrier has the controlling ownership interest in the spectrum, it would be considered a stand-alone entity, and the appropriate tier would apply. If the larger carrier has the controlling ownership interest in the spectrum, the small wireless carrier would not be considered a stand-alone entity, and the tier of the

⁵ The FCC created three tiers to tailor its E911 deployment deadlines to the unique capabilities of various-sized wireless carriers. *Revision of the Commission's Rules to Ensure Compatibility with Enhanced 911 Emergency Calling Systems, Phase II Compliance Deadlines for Non-Rural Nationwide CMRS Carriers*, CC Docket No. 94-102, Order to Stay, 17 FCC Rcd 14841, 14847-14848, ¶¶ 22-23 (2002). The Commission recognized that larger wireless carriers had the capability to become compliant more rapidly than small or mid-sized carriers "because of their size and geographic scope." *Ibid.*, 17 FCC Rcd 14843-14844, ¶¶ 8-11. As part of the E911 proceeding, the Rural Telecommunications Group advocated the inclusion of a fourth tier to represent small, rural wireless carriers. While the Commission did not adopt a fourth tier for E911 deployment, it is included in this proposal, since universal service policy has traditionally recognized the higher costs of small and rural carriers.

⁶ These carriers presently include: AT&T Wireless, Cingular Wireless, Nextel Communications, Sprint PCS, Verizon Wireless, and VoiceStream Communications d/b/a T-Mobile.

⁷ As of year-end 2001, the wireless carriers that fell into this category – in order of size – included: ALLTEL, US Cellular, Western Wireless, Leap Wireless, Qwest, Centennial Cellular, CenturyTel, Dobson Communications, Triton PCS, American Cellular, Rural Cellular Corp., and Price Wireless. Since 2001, other wireless carriers that were originally classified as Tier III carriers now possess over 500,000 subscribers and would be considered Tier II carriers under this proposal.

controlling carrier would apply.

5. Next, wireline-to-wireless support ratios would be established for each of these tiers. Specifically, the wireless carriers in Tier III would be eligible to receive 40 percent of the study area average per-line support received by the ILEC that offers service to the customer. This is based upon the finding that wireless carriers invest \$40 in infrastructure for every \$100 spent on infrastructure by ILECs (see Point #2). Tier IV carriers, which represent the very smallest rural wireless providers, would be eligible to receive twice the per-line support level available to Tier III wireless carriers, or in other words, 80 percent of the ILEC's study area average per-line support. Conversely, Tier II carriers would be eligible to receive half of the per-line support level available to Tier III wireless CETCs, or 20 percent of the ILEC's study area average per-line support. Finally, Tier I wireless carriers would not be eligible to receive any USF support. This recognizes the fact that the national scope of Tier I carriers makes it possible for them to successfully serve all of their customers without receiving USF support, even if they happen to serve some high-cost rural markets.
 - Tier IV Wireless CETCs: Eligible to receive 80 percent of the study area average per-line support received by the ILEC that offers service to the customer.
 - Tier III Wireless CETCs: Eligible to receive 40 percent of the study area average per-line support received by the ILEC that offers service to the customer.
 - Tier II Wireless CETCs: Eligible to receive 20 percent of the study area average per-line support received by the ILEC that offers service to the customer.
 - Tier I Wireless CETCs: Eligible to receive 0 percent of the study area average per-line support received by the ILEC that offers service to the customer.
6. The ratios would serve as a "safe harbor" level of support for wireless CETCs. That is, if a wireless CETC chose not to report its actual costs for the purposes of determining USF support, then it would be able to receive support based upon the wireline-to-wireless support ratio that applies to their particular "tier." However, if the wireless CETC felt that its actual costs would justify a higher level of support than it would receive under the safe harbor ratio, then it could choose to report its costs in order to receive a greater level of support, up to *either* the level of per-line support received by the ILEC offering service to the customer or the statewide average per-line support, whichever is greater. For wireless carriers that have obtained ETC status prior to the implementation of this plan, there would be a two year transition period, after which they would begin to receive support based either on the ratio that applies to their particular tier or on their own costs.
7. Over time, should numerous wireless CETCs choose to report their own costs, a robust universe of wireless cost data would be created. This data could be used to create an average schedule-like process for determining wireless CETC support. Such a process would more closely link the support levels wireless CETCs receive with their actual costs.
8. Small rural wireless carriers are committed to bringing quality wireless service to

traditional rural areas and have historically built out their networks to a much greater degree in sparsely populated rural communities as compared to the large national and regional wireless carriers that primarily focus their build out and service enhancements in densely populated urban and metropolitan areas. Given both the apparent public benefit of small wireless carriers providing service in the sparsely populated rural portions of their markets and their limited financial resources, regulators are encouraged to streamline, expedite, and reduce the expense of the ETC designation process for Tier IV wireless carriers in rural and non-rural service areas.

9. In conclusion, this plan has a number of benefits:

- It is easy to manage.
- It would result in a more measured distribution of finite USF support, thereby controlling the overall growth of the fund.
- It would lessen the potential for large windfalls of support received by wireless CETCs, in excess of the CETC's actual cost requirements.
- It provides optionality to the CETC. Either they accept the safe harbor support level, or elect to perform a cost study and report their actual costs.
- It targets more support to small, rural wireless CETCs who most need it.
- It is based on factual investment data for wireline and wireless carriers.